

## **Caught in Downtown's Conversion Crossfire**

**By HOWARD FINE - 6/26/2006**

**Los Angeles Business Journal Staff**

Steven Tsegay is on the front lines as economic forces transform downtown Los Angeles from a haunt of the down-and-out into what could become a bustling residential district.

Arriving in L.A. six months ago from Washington, D.C., without a job and a spotty credit history, the 47-year-old Tsegay managed to find a room at the Cecil Hotel, a 640-room lodging in the heart of downtown.

But as residential hotels throughout downtown begin to disappear as they are converted into lofts, Tsegay feared the Cecil would be next, until the Los Angeles City Council enacted a moratorium on the conversions.

A month later, Tsegay's fears have returned.

The owners of the Cecil Hotel, along with the owner of the nearby Frontier Hotel, are trying to get their buildings exempted from the Council moratorium.

"I'm absolutely concerned that if they get out of this ordinance, I will be forced out onto the street," said Tsegay, who pays a weekly rate that works out to be about \$740 a month.

With high price condo construction and loft conversions exploding in the area, Cecil Hotel owners John Deluca and Dale Lohrer are claiming that the majority of the occupants of the hotel, which was renovated in 2003, are tourists and not permanent residents.

That claim, if it is upheld by the city's Housing Department, would exempt the hotel from the moratorium and allow the two owners to push forward with a remake of the 1920's-era hotel while the weakening housing market and interest rates are still favorable enough to justify construction.

And while the area's business district, the Central City Association, has not taken any stand on the owners' application for an exemption, there is clear opposition to the moratorium from developers, hotel owners and the Central City Association, who fear that it could cripple the revitalization of the area.

"We have no problem with a truly interim ordinance that gives everyone a bit of breathing room to craft a more comprehensive policy," said Victor Franco, senior vice president of government affairs for the Central City Association. "But nearly

every (interim ordinance) that's been implemented throughout the city has become a de-facto permanent ban on future development.”

Deluca could not be reached for comment, and calls to Lohrer were not returned.

### **Tourist or resident?**

The conversions have alarmed the non-profit organizations that cater to the needs of lower-income people living in residential hotels, also called single room occupancy, or SRO, hotels. These include groups like the Los Angeles Community Action Network, the Legal Aid Foundation of Los Angeles, the SRO Housing Corp. and the Southern California Association of Non-Profit Housing.

However, the Cecil Hotel, which was renovated a few years ago, is hardly a standard SRO. Residential hotels are usually run down and are just hotels in name only. Instead, the 640 S. Main St. hotel has an elegantly restored lobby, a reservations desk and is advertised on Web sites aimed at budget travelers.

But Tsegay and affordable housing advocates say the overwhelming majority of occupants are people who have made the hotel their primary residence. “No one here's a tourist. There are people who have lived here for years,” Tsegay said.

Meanwhile, Frontier Hotel owner Rob Frontiera has sought to renew permits he originally obtained in 2002 to convert the entire hotel to residential lofts. Over the last couple years, the top two floors of the 12-story building have been converted to lofts, complete with a separate entrance. But the permits expired before work on the remaining floors could begin.

In May, the Department of Building and Safety granted the permit renewals. But after protests from the Legal Aid Foundation of Los Angeles, the department revoked the permits in mid-June, saying Frontiera needed additional approval from the Community Redevelopment Agency.

Calls placed to attorneys who have represented Frontiera were not returned.

However, Franco points to recent guidelines for residential hotels put forth by the Community Redevelopment Agency. Under the guidelines, the CRA will only approve projects that replace the affordable housing units in residential hotels on a one-to-one basis and provide relocation assistance to all displaced tenants. In addition, any new use must be primarily affordable housing and remain that way for at least 55 years.

“If you require that residential hotels remain that way for 55 years, you are essentially keeping blighted areas blighted,” Franco said. “Why would any

investor want to fund a project in which a building must remain affordable housing for decades, regardless of the market conditions?”

### **Growing concerns**

Housing advocates say that the lower income residents who have long populated downtown are being lost in the shuffle as the area becomes more and more attractive to high-income professionals who may pay more than \$500,000 for a loft.

Over the past five years, nearly 1,000 residential hotel rooms have disappeared throughout the city, the vast majority of those in the downtown market. Many of the occupants who could not find space in other residential hotels have ended up homeless, affordable housing advocates say. That is why they pushed for a moratorium and persuaded Councilwoman Jan Perry to introduce an interim control ordinance last year.

“We need to enforce this interim control ordinance,” said Becky Dennison, co-director of the Los Angeles Community Action Network.

They also point out the city is offering economic incentives for the hotel owners to renovate their building into affordable housing, noting the CRA approved \$47 million in bonds and direct financial assistance for the Alexandria Hotel, at 501 South Spring St. also in downtown.

Similar subsidies for other residential hotels could help, especially if voters approve a \$1 billion housing bond that appears likely to be placed on this November’s ballot.

In the meantime, affordable housing advocates are concerned with another issue: a continuing stream of reports from several residential hotels of the practice of forcing people out before they reach the 30-day threshold that qualifies them as tenants. This long-running practice, commonly referred to as the “28-day shuffle,” is illegal under the city’s rent stabilization ordinance.

City Attorney Rocky Delgadillo has filed suit against Frontiera and his hotel, alleging he is using this 28-day shuffle to deny paying relocation benefits to people evicted to make way for the loft conversions.

Perry said she hopes Delgadillo’s lawsuit will deter other hotel owners from using the 28-day shuffle.

But Perry said she regarded the attempts by the Cecil and Frontier hotels to exempt themselves from the moratorium as isolated instances, and was not concerned at this stage that other residential hotel owners would follow suit.